

**CITY OF MANISTIQUE, MICHIGAN**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2004**

# Auditing Procedures Report

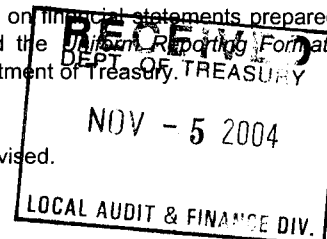
Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Manistique</b>	County <b>Schoolcraft</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>9/17/04</b>	Date Accountant Report Submitted to State: <b>11/1/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>901 Ludington Street</b>	City <b>Escanaba</b>	State <b>MI</b>	ZIP <b>49829</b>
Accountant Signature <i>Raymond B. LaMarche, CPA</i>		Date <b>11/1/04</b>	

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Commission  
City of Manistique  
Manistique, Michigan 49854

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manistique, Michigan's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004, on our consideration of the City of Manistique, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 14, 56 and 57, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistique, Michigan's basic financial statements. The combining nonmajor fund financial statements and the statistical table are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical table has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

September 17, 2004

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis of City of Manistique's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2004. Please read it in conjunction with the City's financial statements, which begin on page 15.

### FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$10,328,193. This is the first year for the City to book net assets for all funds, as this is the first year to implement GASB 34, which requires us to book assets in all funds, not just in the Enterprise Funds. Net assets for our business-type activities were \$9,879,801, while net assets in our governmental activities were \$448,392. We will see next year how these figures compare. We are now tracking all assets over \$5,000 (the limit set by Council with recommendation from Management) in a new depreciation program which will allow us to account for depreciation and be able to predict and budget more readily for this non-cash expense, a cost that ultimately affects our bottom line and Fund Balance, therefore becoming an important part of the accounting equation.
- The City's expenses for the year totaled \$5,172,495, an increase of \$ 1,019,603 (24.56%) over 2003. Revenues from all sources were \$5,606,539. Revenues in the Water and Wastewater Utilities decreased in Sewer by 11.07% and increased in Water by .0097% respectively. The change in Sewer resulted from the fact that in 2003 Sewer had been reimbursed \$66,000 from the Hospital and Medical Care Facility for the project on Main Street. Sales in Ambulance increased by \$31,996 (12.24%). This was due to a couple of reasons: An increase in number of runs, and a decrease in write-offs. We requested that Rampart verify write-offs with us before turning over large amounts that we might deem collectible to Northern Service Bureau.
- In the City's business type activities, total revenues were \$1,884,143, an increase of 4.39% over the previous year. Business-type activity revenues were 33.61% as a percentage of total revenues compared to 60.73% the previous year. This came most likely as the result of no increase in water and sewer rates. Business type expenses on the other hand calculated at 42.88%, where last year they were 17.99% of total revenue. Water and Sewer have been using DPW services when at all possible. This has increased their expenses for labor, and this movement has decreased the expenses in the DPW departments in the General Fund. This creates a win-win situation for both Water, Sewer, and the General Fund, as it obviously saves the General Fund, while Water and Sewer save substantially over the cost of contracted help. This could create a potential problem for Water and Sewer though unless they begin to recoup enough revenue to completely cover these costs and also fund their depreciation. Council and Management have raised rates for the FY 2005, and it is definitely an area that we will monitor.
- The City implemented its webpage, first as manistique.info, and then as both manistique.info and cityofmanistique.com. We now have our voter's registration, cemetery records from Fairview, city officials listing, and much more online. While not yet completed, the service over time should prove to be an asset to the community and a definite timesaver to our employees. All City departments are now connected to high-speed Internet services. Many

reports and forms are now transmitted through the Internet. The service has also allowed the City to avoid the cost of dedicated phone lines for some utility functions.

- The General Fund finished the year with a positive unrestricted fund balance of \$78,673. This was after revenues of \$1,936,232 compared to \$1,763,642 in 2003, and expenditures of \$1,877,679 compared to expenses of \$1,880,711 in 2003. The expenditures in General Fund included a transfer out of Landfill monies that had been held in the General Fund as a restricted line item for many years. These monies were transferred directly into the Landfill Fund. The amount of this transfer was 87,802.85.
- The net assets for the governmental activities were \$448,392 in 2004. Again, this was our first year to implement GASB 34, the tracking of assets. This will be interesting to follow as we watch our depreciation in comparison with purchase of new capital assets. Again, this is an area where depreciation plays a huge part in the value of the City as a whole. This value also serves as an indicator of how we look to lending institutions and our other creditors and determines what kind of interest rates we obtain from them when we bond or borrow.

## USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

### Reporting the City as a whole

#### Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities reports information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current years revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets- the difference between assets and liabilities- as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.



In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City’s basic services are reported here including public safety, public works, parks and recreation, and general administration. Property taxes, state shared revenues and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City’s Water, Wastewater, Ambulance, and Recreation funds are reported here.

## **Reporting the City’s Most Significant Funds**

### **Fund Financial Statements**

Our analysis of the City’s Major Funds begins on page 10. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that the City is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City’s two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City’s services are reported in governmental funds, which focus on how money flows into and out of those funds, and the balances that are left at year-end available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation that follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

## The City as a Trustee

The City is the trustee, *or fiduciary*, of funds that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 24. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

## The City as a Whole

The City's net combined assets were 10,328,193.

**Table 1**  
**Net Assets**

	Governmental Activities 2004	Business-Type Activities 2004
Current and other assets	\$ 1,374,041	\$ 1,374,496
Capital assets (net)	3,768,631	14,064,195
Total Assets	<u>\$ 5,142,672</u>	<u>\$ 15,438,691</u>
Long-term debt outstanding	\$ 4,120,667	\$ 5,280,704
Other liabilities	573,613	278,186
Total Liabilities	<u>4,694,280</u>	<u>5,558,890</u>
Net Assets:		
Invested in capital assets, net of related debt	104,794	8,654,194
Restricted assets:		
Expendable	470,089	-
Nonexpendable	148,032	-
Unrestricted	(274,523)	1,225,607
Total net assets	<u>\$ 448,392</u>	<u>\$ 9,879,801</u>

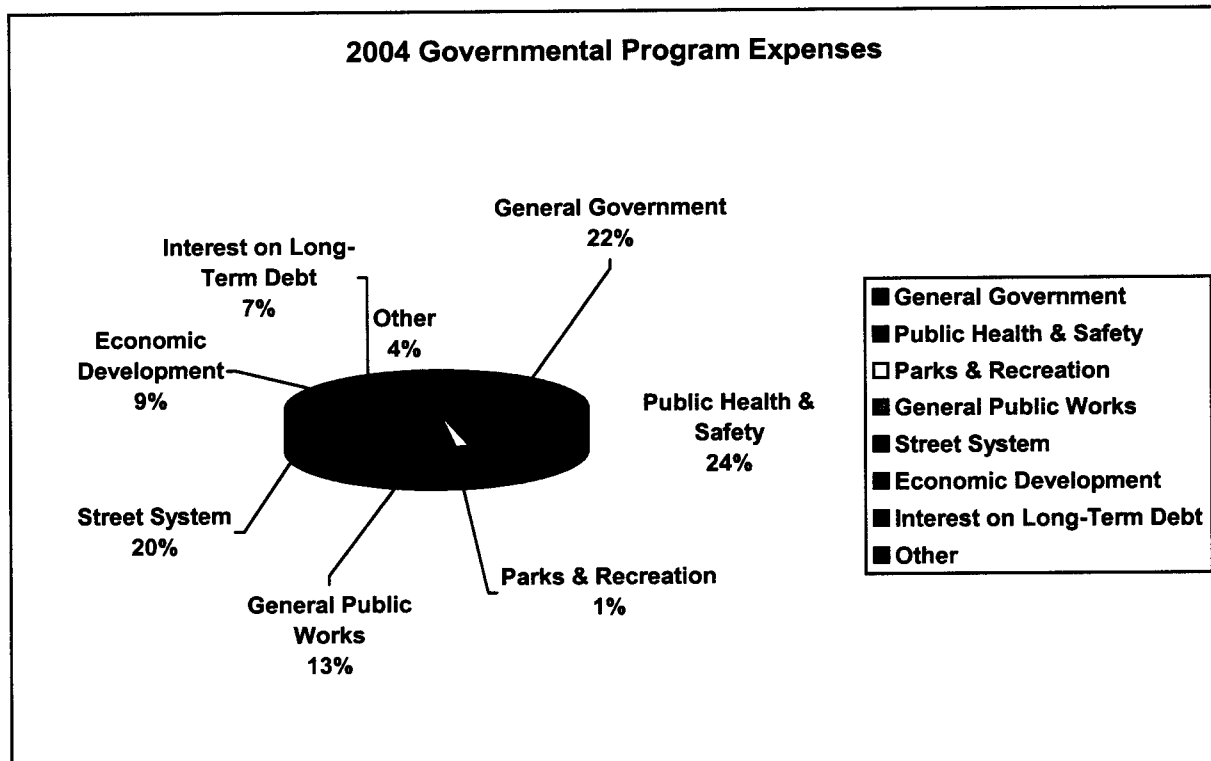
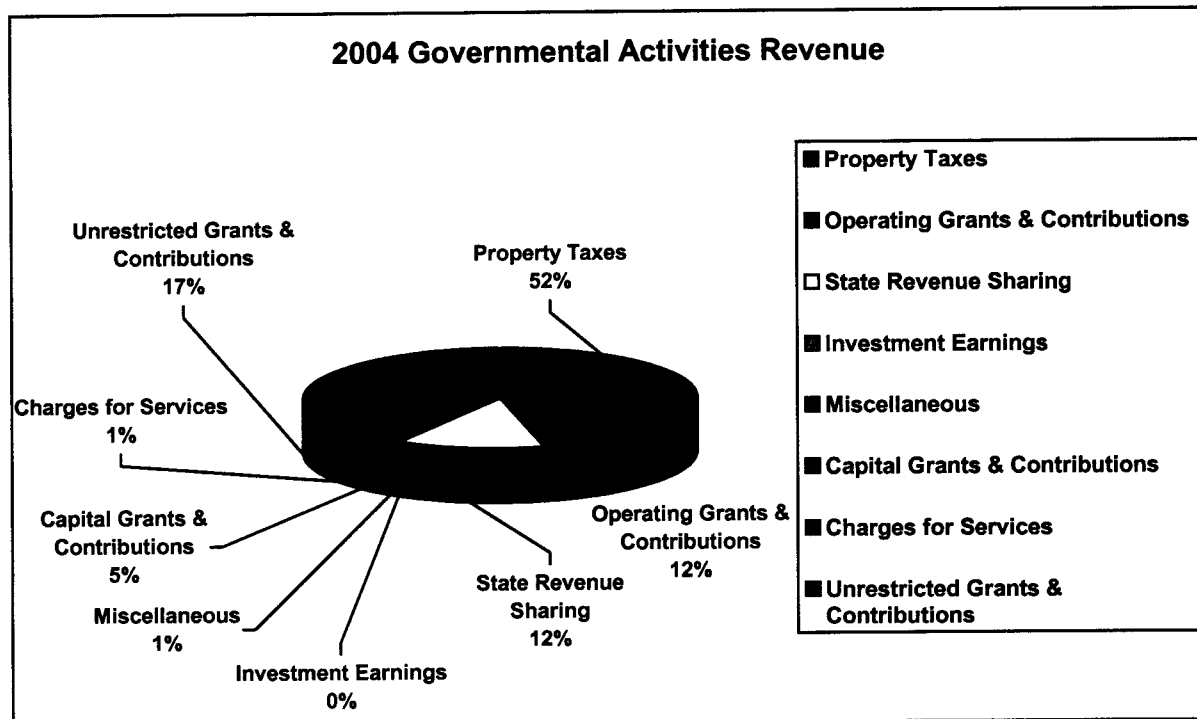
Net assets of the City's governmental activities stood at \$448,392. Total assets stood at \$5,142,672. The ratio of assets to liabilities stood at 1.25 in 2004. This will serve as our starting point in tracking this number, a good indicator of our overall financial health. The City had a decline in long-term debt of over \$729,244 and a decrease of over \$1,000,046 in total liabilities. In summary, the City paid down liabilities at a faster rate than they accumulated new debt.

Net assets in our business-type activities stood at \$9,879,801 in 2004. Total assets were at \$15,438,691. Liabilities stood at \$5,558,890 in 2004. Unrestricted net assets ended the FY at \$1,225,607 in 2004. In summary, the net assets of the business lines became a little less liquid, but investments in infrastructure will pay dividends in the future.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities 2004	Business-Type Activities 2004
<b>Revenues:</b>		
Program Revenues:		
Charges for services	\$ 55,518	\$ 1,750,381
Operating grants & contributions	457,725	-
Capital grants & contributions	187,486	133,762
General Revenues:		
Property taxes	1,885,614	-
State revenue sharing	449,535	-
Other grants & contributions	626,642	-
Unrestricted investment earnings/interest income	17,191	7,547
Miscellaneous/Other	35,138	-
Total Revenues	<u>3,714,849</u>	<u>1,891,690</u>
<b>Program Expenses:</b>		
General government	606,995	-
Public health & safety	702,055	-
Parks & recreation	41,301	-
General public works	360,099	-
Street system	553,525	-
Economic development	243,786	-
Sanitary landfill	(152,419)	-
Other	106,972	-
Interest on long-term debt	202,103	-
Ambulance	-	280,080
Recreation building	-	86,339
Waste water utility	-	945,347
Water utility	-	904,173
Total Expenses	<u>2,664,417</u>	<u>2,215,939</u>
Excess (deficiency) before transfers and contributions	1,050,432	(324,249)
Transfers	<u>(63,000)</u>	<u>63,000</u>
Increase (decrease) in net assets	987,432	(261,249)
Net assets - beginning	<u>(539,040)</u>	<u>10,141,050</u>
Net assets - ending	<u><u>\$ 448,392</u></u>	<u><u>\$ 9,879,801</u></u>

## Governmental Activities



The City's total revenues were \$5,606,539 in 2004. The cost of all programs and services was \$4,880,356 for 2004. For 2004, the difference between revenue and expenses was \$726,183

## Governmental Activities

Revenues for the City's governmental activities totaled \$3,14,849 while expenses totaled \$2,664,417.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

**Table 3**  
**Government Activities**

	Total Cost of Services 2004	Net Cost of Services 2004
Public health & safety	\$ 702,055	\$ 661,534
Street systems	553,525	6,809
Economic development	243,786	226,540
General public works	360,099	360,099
General government	606,995	538,095
Totals	<u>\$ 2,466,460</u>	<u>\$ 1,793,077</u>

Costs of services declined by about 7% as a result of tighter budget controls. There were a couple factors that mitigated against attempts to control costs. We were constantly hit with higher cost increases in insurance, first the Blue Cross Blue Shield went up approximately 20% on current employees and 38% on retirees. We have tried to curtail this cost by joining the MEBS insurance plan. It provides the employee with the benefits of their prior PPO1 policy, but in fact the City is carrying a higher deductible policy, PPO12, and is paying the difference to MEBS. We are interested to know what savings this will bring. If not as expected, health insurance could continue to be an area of focus in future budget planning. In the Major and Local Street Funds, four consecutive weekend snow storms in March of 2004 ran up snow removal costs. Major and Local both had sufficient fund balances to accommodate these expenses, and we were glad that we had left them with a surplus.

## Business-Type Activities

Revenues for the City's business-type activities totaled \$1,891,690, up from \$1,801,459 in 2003 (23.1%). Most of the increase occurred in Water and Sewer. Part of it again is the one-time payment from the Hospital and Medicare of \$33,000 each for the new water and sewer system from Maple to their facilities.

## THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$1,013,489, an increase of \$21,662 from 2003. This was due primarily to an increase in assets of \$113,117 (some of this due to more cash put aside for retiree pay-outs and DDA's restricting cash for the potential liability due to the State). Also, in DDA, recent notification from the State allowed us relief of the liability we had set up as a potential repayment due to them. This was a real highlight in that fund.

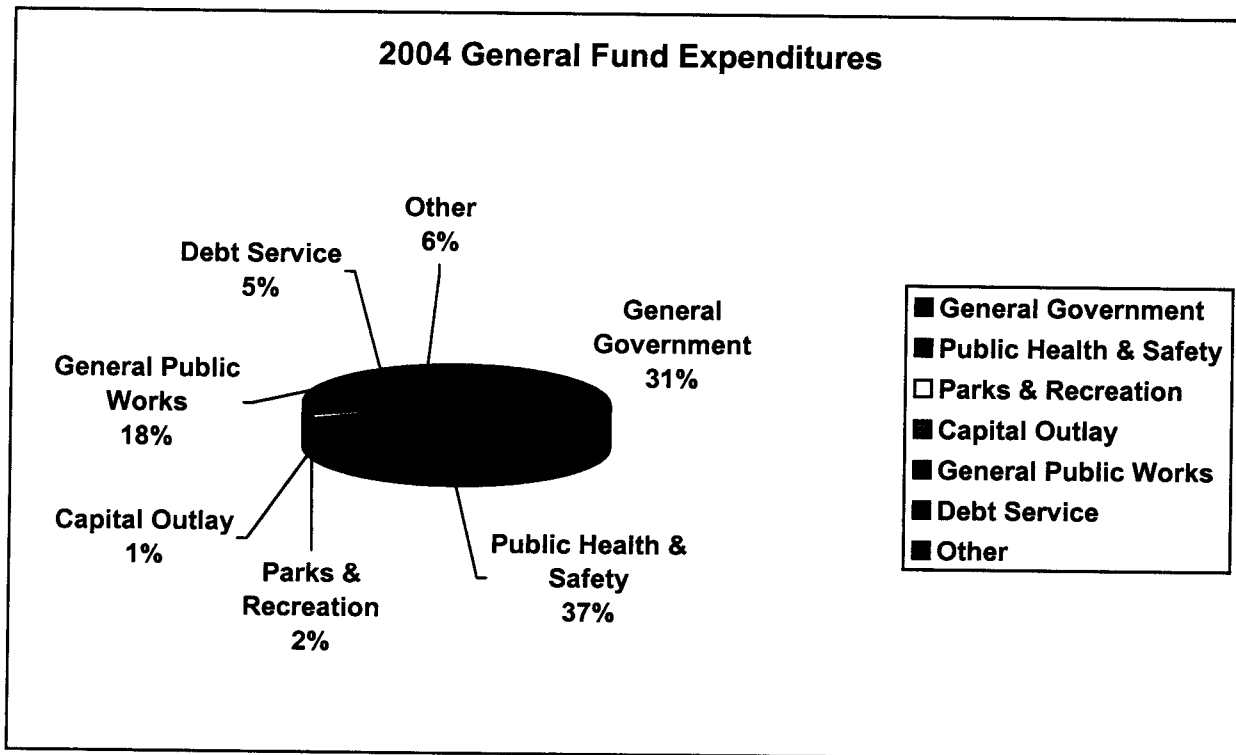
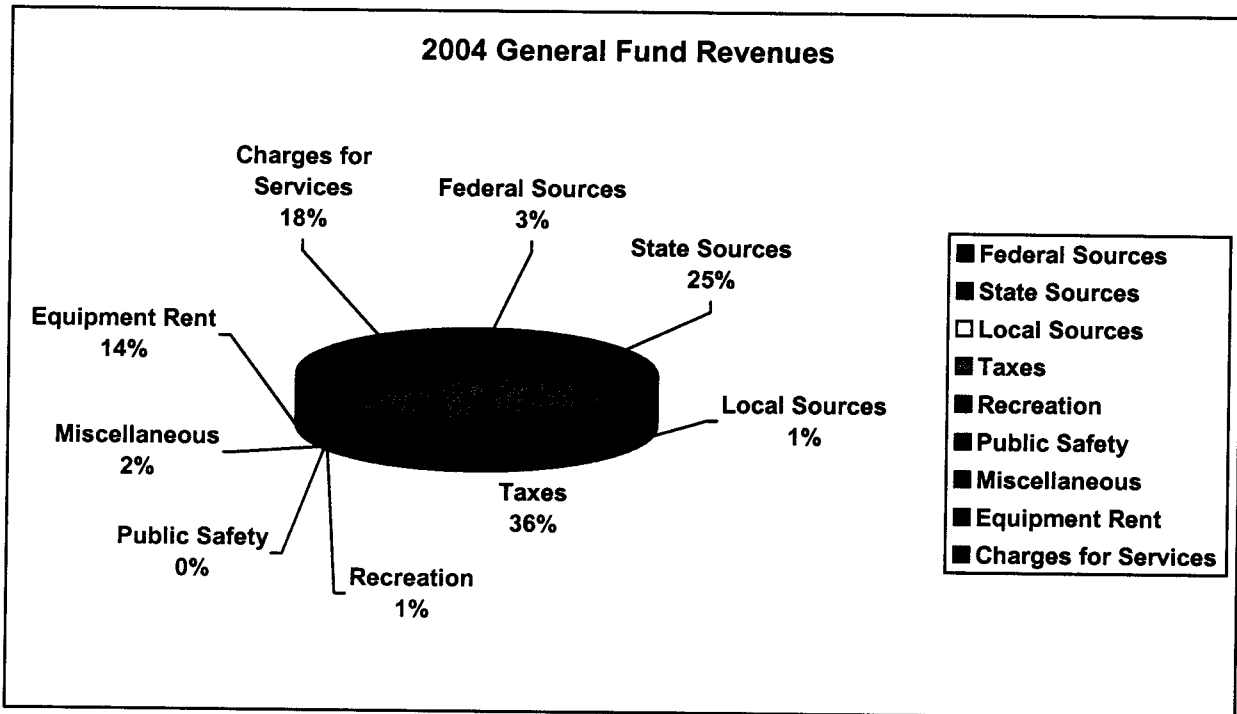
### General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. As usual, revenue figures were easiest to project, with the final revenue number of \$1,936,232 just 1.5% over amended budget. Expenses were a little harder to predict, given variables such as winter weather, and costs for health insurance. The final expense number of \$1,877,679 was under the revised expense estimate of \$1,889,279 but not far from the original expense number of \$1,797,839, considering the final figure included two unexpected retirements with payouts. Over the next year, we will concentrate on building up fund balances in the General Fund to absorb overruns in the future.

The final revenue number was \$58,553, 3.61 times higher than 2003, and the final fund balance for General Fund was \$134,437, which included the unrestricted amount of \$78,673, the rest being restricted for fire-truck CD's, inventory, donations, etc. On the revenue side, the General Fund was hit by a significant cut in State revenues from all sources (\$69,862.42). This was offset however, by an increase of \$123,903.54 in equipment rent income. The other factor that caused cost overruns was four straight weekend snowstorms that required extensive overtime for winter maintenance. We were fortunate to have enough fund balance in the Major and Local Streets funds to cover this extremely high expense in those funds and to bring it back into the General Fund as equipment rent revenue. Keeping higher fund balances in the Major and Local Street funds proved to be a wise move, and we will continue to monitor those funds and plan again accordingly. This will become easier to do as the economy improves.

We had some extremely hard decisions to make as we approached our half-year mark, Jan. 1, 2004, as we could see that we were going to be running a deficit come June 30, 2004, unless some drastic measures were taken. We had come into this year with an unrestricted fund balance of just over \$17,000. That left little room for error. We analyzed, predicted, forecasted, ran the numbers over and over, and finally made probably the hardest decision we could imagine. We knew we had to lay off people, as that was our largest cost; 74% of our budget was personnel and related benefits. It was a very troubling announcement to make, one that we hope not have to make again. But when we got into February and March, Mother Nature decided to help us along a bit, dumping a record amount of snow down on our street systems. Thankfully we had enough in Major and Local to cover these expenses, which in turn took the burden of winter salaries and fringes off General Fund. We finished the year with a positive fund balance, at which point we breathed a sigh of relief. Our goal now is to increase the fund balance to \$100,000-\$115,000, the point at which we will feel more comfortable. It is our understanding that the General Fund should have a fund balance or cushion of approximately 10-15% of revenues, which would be approximately \$175,000. The City is very fortunate to have personnel recognizing the problem and willing to work with us, and for that we say **"Thank You"** to them.

## General Fund



## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2004, the City had \$17,832,826, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. (See table 4 below)

**Table 4**  
**Capital Assets at Year-End**  
**(net of accumulated depreciation)**

	Governmental Activities 2004	Business-Type Activities 2004
Land	\$ 81,000	\$ 2,139
Land Improvements	47,979	58,996
Buildings	760,733	833,022
Machinery & Equipment	329,608	1,122,342
Vehicles	240,800	-
Infrastructure- road system	4,960,779	-
Distribution/collection system	-	20,109,003
Accumulated Depreciation	<u>(2,652,268)</u>	<u>(8,061,307)</u>
Total	<u>\$ 3,768,631</u>	<u>\$ 14,064,195</u>

This is the first year to list capital assets for the governmental activities as we are implementing the new regulation of GASB 34.

### DEBT

At year-end the City had a total \$9,985,998 in long-term debt obligations. This is a net decrease of \$757,232 (7.05%) in total long-term debt. Notable in the reduction of long-term debt was the refinancing of over \$900,000 in bonds for the Water Department to take advantage of lower interest rates. Also, in the current year the City revised the estimated cost of monitoring the landfill from \$30,000 per year for 30 years to \$20,000 per year for 30 years based upon revised engineering estimates. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$3,663,837 is well below the 10% limit of just over \$5,500,000.



**Table 5**  
**Outstanding Debt at Year-End**

	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Totals <u>2004</u>
General obligation bonds/ notes(backed by the City)	\$ 354,699	\$ 159,862	\$ 514,561
Revenue bonds and notes (backed by specific tax and fee revenues)	<u>3,455,000</u>	<u>5,248,000</u>	<u>8,703,000</u>
Totals	<u><u>\$ 3,809,699</u></u>	<u><u>\$ 5,407,862</u></u>	<u><u>\$ 9,217,561</u></u>

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. While it seems apparent that an economic recovery is underway and accelerating, it may take years to replace some of the economic vigor that was lost during the recent recession. During this period however, Manistique has experienced growth in commercial development. This development will allow the continued growth in service type jobs, but some of these will be at higher wages than in the past. Further, development is continuing to focus on Manistique's waterfront. This growth will affect revenues for the years coming.

The cost of living in Manistique is below the national and State average, but real estate values continue to climb. The growth of other costs continue to rise at the national inflation rate or lower. These factors were taken into account when adopting the 2004 budget. However, the specter of continued decreases in State shared revenues still exists, and cost control will remain a priority. Cost cuts in health insurance expenses for all divisions by joining the MEBS plan will hopefully help with cost containment. We will continue to monitor all costs and will make adjustments where necessary.

For our business type activities, continued slow growth is forecast in water and wastewater. Ambulance remains a stabilizing force in the enterprise funds as the City supplies a need for the community and a steady income for the fund. Recreation seems to be the area that has struggled in the past and this year remains no exception. It is an area that will require intensive analysis and management.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Manistique City Hall, 300 North Maple St, P.O. Box 515, Manistique, Michigan, 49854.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**June 30, 2004**

ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents			
Restricted	\$ 200,999	\$ 328,305	\$ 529,304
Unrestricted	925,866	584,657	1,510,523
Receivables :			
Accounts	7,764	56,575	64,339
Utilities		208,354	208,354
Delinquent taxes	12,758	-	12,758
Cemetery	2,931	-	2,931
Internal balances	(188,456)	188,456	-
Due from other governmental units	400,684	-	400,684
Inventory	11,495	8,149	19,644
Total current assets	<u>1,374,041</u>	<u>1,374,496</u>	<u>2,748,537</u>
Noncurrent assets:			
Capital assets (net)	<u>3,768,631</u>	<u>14,064,195</u>	<u>17,832,826</u>
Total assets	<u>\$ 5,142,672</u>	<u>\$ 15,438,691</u>	<u>\$ 20,581,363</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 61,668	\$ 13,302	\$ 74,970
Accrued payroll	26,284	19,255	45,539
Accrued interest	36,380	55,870	92,250
Due to other governmental units	45,467	-	45,467
Customer deposits	-	8,946	8,946
Compensated absences	33,695	13,414	47,109
Due to Manistique Papers	72,536	-	72,536
Bonds payable	215,000	146,500	361,500
Notes payable	51,987	20,899	72,886
Lease payable	10,596	-	10,596
Landfill postclosure costs	20,000	-	20,000
Total current liabilities	<u>573,613</u>	<u>278,186</u>	<u>851,799</u>
Noncurrent liabilities:			
Compensated absences	101,087	40,241	141,328
Due to Manistique Papers	73,326	-	73,326
Bonds payable	3,240,000	5,101,500	8,341,500
Notes payable	135,012	138,963	273,975
Lease payable	11,242	-	11,242
Landfill postclosure costs	560,000	-	560,000
Total noncurrent liabilities	<u>4,120,667</u>	<u>5,280,704</u>	<u>9,401,371</u>
Total liabilities	<u>\$ 4,694,280</u>	<u>\$ 5,558,890</u>	<u>\$ 10,253,170</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 104,794	\$ 8,654,194	\$ 8,758,988
Restricted for:			
Expendable:			
Donated projects	44,269	-	44,269
Sanitary landfill	425,820	-	425,820
Nonexpendable:			
Cemetery perpetual care	148,032	-	148,032
Unrestricted	<u>(274,523)</u>	<u>1,225,607</u>	<u>951,084</u>
Total net assets	<u>\$ 448,392</u>	<u>\$ 9,879,801</u>	<u>\$ 10,328,193</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2004**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees. Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 606,995	\$ 13,400	\$ 55,500	\$ -	\$ (538,095)	\$ -	\$ (538,095)
Public health and safety	702,055	27,209	13,312	-	(661,534)	-	(661,534)
Parks and recreation	41,301	14,909	-	-	(26,392)	-	(26,392)
General public works	360,099	-	-	-	(360,099)	-	(360,099)
Street system	553,525	-	376,476	170,240	(6,809)	-	(6,809)
Economic development	243,786	-	-	17,246	(226,540)	-	(226,540)
Sanitary landfill	(152,419)	-	12,437	-	164,856	-	164,856
Other	106,972	-	-	-	(106,972)	-	(106,972)
Interest on long-term debt	202,103	-	-	-	(202,103)	-	(202,103)
Total governmental activities	<u>2,664,417</u>	<u>55,518</u>	<u>457,725</u>	<u>187,486</u>	<u>(1,963,688)</u>	<u>-</u>	<u>(1,963,688)</u>
Business-type activities:							
Ambulance	280,080	292,840	-	-	-	12,760	12,760
Recreation Building	86,339	52,772	-	10,000	-	(23,567)	(23,567)
Waste water utility	945,347	692,614	-	54,871	-	(197,862)	(197,862)
Water utility	904,173	712,155	-	68,891	-	(123,127)	(123,127)
Total business-type activities	<u>2,215,939</u>	<u>1,750,381</u>	<u>-</u>	<u>133,762</u>	<u>-</u>	<u>(331,796)</u>	<u>(331,796)</u>
Total primary government	<u>\$ 4,880,356</u>	<u>\$ 1,805,899</u>	<u>\$ 457,725</u>	<u>\$ 321,248</u>	<u>(1,963,688)</u>	<u>(331,796)</u>	<u>(2,295,484)</u>
General revenues:							
Property taxes					1,717,896	-	1,717,896
Property taxes - restricted for sanitary landfill					167,718	-	167,718
State revenue sharing					449,535	-	449,535
Grants and contributions not restricted to specific programs					626,642	-	626,642
Contributions to permanent fund					6,900	-	6,900
Unrestricted investment earnings					17,191	7,547	24,738
Miscellaneous					28,238	-	28,238
Transfers					(63,000)	63,000	-
Total general revenues and transfers					<u>2,951,120</u>	<u>70,547</u>	<u>3,021,667</u>
Changes in net assets					<u>987,432</u>	<u>(261,249)</u>	<u>726,183</u>
Net assets - beginning					<u>(539,040)</u>	<u>10,141,050</u>	<u>9,602,010</u>
Net assets - ending					<u>\$ 448,392</u>	<u>\$ 9,879,801</u>	<u>\$ 10,328,193</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2004**

	General Fund	DDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and equivalents:				
Restricted	\$ 52,967	\$ -	\$ 148,032	\$ 200,999
Unrestricted	144,307	129,471	652,088	925,866
Receivables:				
Accounts	6,105	1,659	-	7,764
Delinquent taxes	11,220	-	1,538	12,758
Cemetery	2,931	-	-	2,931
Due from other funds	78,987	-	-	78,987
Due from other governmental units	144,526	207,244	48,914	400,684
Inventory	11,495	-	-	11,495
	<u>452,538</u>	<u>338,374</u>	<u>850,572</u>	<u>1,641,484</u>
Total assets	<u>\$ 452,538</u>	<u>\$ 338,374</u>	<u>\$ 850,572</u>	<u>\$ 1,641,484</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 51,724	\$ 9,944	\$ -	\$ 61,668
Accrued payroll	22,663	1,345	2,276	26,284
Due to other funds	225,363	9,545	32,535	267,443
Due to other governmental units	-	45,467	-	45,467
Deferred revenue	18,351	207,244	1,538	227,133
	<u>318,101</u>	<u>273,545</u>	<u>36,349</u>	<u>627,995</u>
Total liabilities	<u>318,101</u>	<u>273,545</u>	<u>36,349</u>	<u>627,995</u>
Fund balances:				
Reserved for:				
Inventory	11,495	-	-	11,495
Donated projects	44,269	-	-	44,269
Cemetery perpetual care	-	-	148,032	148,032
Unreserved	78,673	64,829	-	143,502
Unreserved, reported in non-major:				
Special revenue funds	-	-	240,371	240,371
Capital project fund	-	-	425,820	425,820
	<u>134,437</u>	<u>64,829</u>	<u>814,223</u>	<u>1,013,489</u>
Total fund balances	<u>134,437</u>	<u>64,829</u>	<u>814,223</u>	<u>1,013,489</u>
Total liabilities and fund balances	<u>\$ 452,538</u>	<u>\$ 338,374</u>	<u>\$ 850,572</u>	<u>\$ 1,641,484</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2004**

Total fund balances for governmental funds \$ 1,013,489

Total net assets reported for governmental activities in the statement of net assets  
is different because:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds. Those assets consist of:

Land	\$	81,000	
Land improvements		47,979	
Buildings		760,733	
Machinery and equipment		329,608	
Vehicles		240,800	
Infrastructure - road system		4,960,779	
Accumulated depreciation		<u>(2,652,268)</u>	
Total capital assets			3,768,631

Long-term liabilities applicable to the City's governmental activities are not  
due and payable in the current period and accordingly are not reported as  
fund liabilities. Interest on long-term debt is not accrued in governmental  
funds, but rather is recognized as an expenditure when due. All liabilities,  
both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$	(36,380)	
Due to Manistique Papers		(145,862)	
Bonds payable		(3,455,000)	
Notes payable		(186,999)	
Lease payable		(21,838)	
Landfill postclosure costs		(580,000)	
Compensated absences		<u>(134,782)</u>	(4,560,861)

Deferred revenue reported as a liability on the balance sheet of the fund  
financial statements and have been recognized as revenue in the statement  
of activities have been removed from the statement of net assets.

		<u>227,133</u>	
Total net assets of governmental activities			<u><u>\$ 448,392</u></u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2004**

	General Fund	DDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Federal sources	\$ 57,526	\$ -	\$ 170,240	\$ 227,766
State sources	479,827	17,246	376,476	873,549
Local sources	17,152	-	-	17,152
Taxes	699,503	614,817	167,880	1,482,200
Recreation	14,909	-	-	14,909
Public safety	2,451	-	-	2,451
Charges for services	351,852	-	-	351,852
Equipment rental	270,857	-	-	270,857
Interest income	8,585	4,896	16,147	29,628
Miscellaneous	33,570	601	6,900	41,071
Total revenues	\$ 1,936,232	\$ 637,560	\$ 737,643	\$ 3,311,435
<b>EXPENDITURES:</b>				
General government	\$ 588,986	\$ -	\$ -	\$ 588,986
Public health and safety	698,228	-	-	698,228
Parks and recreation	35,902	-	-	35,902
General public works	344,508	-	-	344,508
Street system	-	-	544,113	544,113
Economic development	-	143,243	-	143,243
Sanitary landfill	-	-	5,211	5,211
Capital outlay	11,757	182,559	179,258	373,574
Debt service:				
Principal	79,411	90,925	205,000	375,336
Interest and other charges	11,915	986	189,958	202,859
Other	106,972	-	-	106,972
Total expenditures	1,877,679	417,713	1,123,540	3,418,932
Excess revenues (expenditures)	58,553	219,847	(385,897)	(107,497)
<b>OTHER FINANCING SOURCES (USES):</b>				
Tax revenue adjustment	-	192,159	-	192,159
Transfers in	-	14,594	377,986	392,580
Transfers out	(90,803)	(325,183)	(39,594)	(455,580)
Total other financing sources (uses)	(90,803)	(118,430)	338,392	129,159
Net changes in fund balances	(32,250)	101,417	(47,505)	21,662
Fund balances - beginning	166,687	(36,588)	861,728	991,827
Fund balances - ending	\$ 134,437	\$ 64,829	\$ 814,223	\$ 1,013,489

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2004**

Net changes in fund balances - total governmental funds	\$	21,662
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$280,754) exceeded depreciation expense (\$256,240) .		24,514
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Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:		
Due to Manistique Papers	72,536	
Bond principal	205,000	
Note principal	45,724	
Lease payable	52,076	
Landfill postclosure costs	320,000	695,336

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities.		211,255
--	--	---------

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	33,909	
Accrued interest on debt	756	34,665
Changes in net assets of governmental activities		\$ 987,432

See accompanying notes to financial statements.



**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2004**

	Waste Water Utility	Water Utility	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents:				
Restricted	\$ 194,770	\$ 127,508	\$ 6,027	\$ 328,305
Unrestricted	248,998	227,341	108,318	584,657
Receivables:				
Accounts	-	-	56,575	56,575
Utilities	107,722	100,632	-	208,354
Due from other funds	225,363	-	-	225,363
Inventory	5,537	2,612	-	8,149
Total current assets	<u>782,390</u>	<u>458,093</u>	<u>170,920</u>	<u>1,411,403</u>
Noncurrent assets:				
Capital assets (net)	<u>6,712,362</u>	<u>6,264,735</u>	<u>1,087,098</u>	<u>14,064,195</u>
Total assets	<u>\$ 7,494,752</u>	<u>\$ 6,722,828</u>	<u>\$ 1,258,018</u>	<u>\$ 15,475,598</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 7,324	\$ 5,475	\$ 503	\$ 13,302
Accrued payroll	9,953	6,107	3,195	19,255
Accrued interest	46,463	9,337	70	55,870
Due to other funds	24,132	5,704	7,071	36,907
Customer deposits	2,863	6,083	-	8,946
Compensated absences	5,702	7,712	-	13,414
Bonds payable	28,000	118,500	-	146,500
Notes payable	-	-	20,899	20,899
Total current liabilities	<u>124,437</u>	<u>158,918</u>	<u>31,738</u>	<u>315,093</u>
Noncurrent liabilities:				
Compensated absences	17,106	23,135	-	40,241
Bonds payable	2,450,000	2,651,500	-	5,101,500
Notes payable	-	-	138,963	138,963
Total noncurrent liabilities	<u>2,467,106</u>	<u>2,674,635</u>	<u>138,963</u>	<u>5,280,704</u>
Total liabilities	<u>\$ 2,591,543</u>	<u>\$ 2,833,553</u>	<u>\$ 170,701</u>	<u>\$ 5,595,797</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 4,234,362	\$ 3,492,596	\$ 927,236	\$ 8,654,194
Unrestricted	<u>668,847</u>	<u>396,679</u>	<u>160,081</u>	<u>1,225,607</u>
Total net assets	<u>\$ 4,903,209</u>	<u>\$ 3,889,275</u>	<u>\$ 1,087,317</u>	<u>\$ 9,879,801</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2004**

	Waste Water Utility	Water Utility	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 680,292	\$ 697,301	\$ 341,104	\$ 1,718,697
Miscellaneous	12,322	14,854	13,508	40,684
Total operating revenue	<u>\$ 692,614</u>	<u>\$ 712,155</u>	<u>\$ 354,612</u>	<u>\$ 1,759,381</u>
<b>OPERATING EXPENSES:</b>				
Salaries and fringes	\$ 213,739	\$ 237,223	\$ 139,070	\$ 590,032
General administration	48,000	48,000	-	96,000
Supplies	16,146	26,148	8,174	50,468
Contracted services	33,644	20,688	6,782	61,114
Safety	1,273	853	-	2,126
Repairs and maintenance	69,526	102,462	5,147	177,135
Utilities	102,785	59,876	21,662	184,323
Communications	2,837	2,666	439	5,942
Printing and publishing	-	217	254	471
Transportation	1,631	1,271	4,532	7,434
Insurance	19,376	20,026	8,521	47,923
Conference and workshops	488	982	411	1,881
Equipment rental	-	-	767	767
Uncollectible accounts	-	-	90,066	90,066
Other services and charges	37,502	16,269	-	53,771
Depreciation	263,893	230,722	69,509	564,124
Miscellaneous	22,892	2,807	4,545	30,244
Total operating expenses	<u>833,732</u>	<u>770,210</u>	<u>359,879</u>	<u>1,963,821</u>
Operating income (loss)	<u>(141,118)</u>	<u>(58,055)</u>	<u>(5,267)</u>	<u>(204,440)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	3,274	3,641	632	7,547
Gain (loss) on sale of equipment	-	(112)	1,000	888
Interest expense	<u>(111,615)</u>	<u>(133,851)</u>	<u>(6,540)</u>	<u>(252,006)</u>
Total nonoperating revenue (expense)	<u>(108,341)</u>	<u>(130,322)</u>	<u>(4,908)</u>	<u>(243,571)</u>
Income (loss) before transfers and contributions	(249,459)	(188,377)	(10,175)	(448,011)
Capital contributions	54,871	68,891	-	123,762
Transfer in	<u>60,000</u>	<u>-</u>	<u>3,000</u>	<u>63,000</u>
Change in net assets	(134,588)	(119,486)	(7,175)	(261,249)
Total net assets - beginning	<u>5,037,797</u>	<u>4,008,761</u>	<u>1,094,492</u>	<u>10,141,050</u>
Total net assets - ending	<u>\$ 4,903,209</u>	<u>\$ 3,889,275</u>	<u>\$ 1,087,317</u>	<u>\$ 9,879,801</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2004**

	Waste Water Utility	Water Utility	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 674,027	\$ 695,057	\$ 343,256	\$ 1,712,340
Payments to suppliers	(350,949)	(293,747)	(149,009)	(793,705)
Payments for wages and related benefits	(204,800)	(240,253)	(139,721)	(584,774)
Other receipts (payments)	12,322	14,854		27,176
Net cash provided (used) by operating activities	130,600	175,911	54,526	361,037
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in (out)	60,000	-	3,000	63,000
Cash received (paid) on customer deposits	-	(20)	-	(20)
Net cash provided (used) by noncapital financing activities	60,000	(20)	3,000	62,980
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of fixed assets	(117,707)	(54,871)	(77,843)	(250,421)
Principal paid on debt instruments	(28,000)	(100,000)	(25,219)	(153,219)
Interest paid on debt instruments	(112,142)	(135,298)	(6,540)	(253,980)
Proceeds from debt issuance	-	-	61,644	61,644
Gain on sale of fixed assets	-	-	1,000	1,000
Capital contributions	54,871	68,891	-	123,762
Net cash provided (used) by capital and related financing activities	(202,978)	(221,278)	(46,958)	(471,214)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest earnings	3,274	3,641	632	7,547
Net increase (decrease) in cash and equivalents	(9,104)	(41,746)	11,200	(39,650)
Cash and equivalents, beginning of year	452,872	396,595	103,145	952,612
Cash and equivalents, end of year	<u>\$ 443,768</u>	<u>\$ 354,849</u>	<u>\$ 114,345</u>	<u>\$ 912,962</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (141,118)	\$ (58,055)	\$ (5,267)	\$ (204,440)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	263,893	230,722	69,509	564,124
Changes in assets and liabilities:				
(Increase) decrease in receivables	(6,265)	(5,291)	(11,356)	(22,912)
(Increase) decrease in due from other funds	365	3,047	-	3,412
(Increase) decrease in inventory	(5,005)	257	-	(4,748)
Increase (decrease) in accounts payable	6,211	4,471	(3,891)	6,791
Increase (decrease) in accrued payroll	8,939	(3,030)	(651)	5,258
Increase (decrease) in due to other funds	3,580	3,790	6,182	13,552
Net cash provided by operating activities	<u>\$ 130,600</u>	<u>\$ 175,911</u>	<u>\$ 54,526</u>	<u>\$ 361,037</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2004**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 1,976</u>
<b>LIABILITIES</b>	
Due to other units governmental units	<u>\$ 1,976</u>

See accompanying notes to financial statements.

# CITY OF MANISTIQUE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (1) REPORTING ENTITY

The City of Manistique was incorporated under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body establishing governmental accounting and financial reporting principles. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis*. GASB 34 significantly changes financial reporting for governmental agencies by adding government-wide financial statements, management's discussion and analysis and reporting on infrastructure.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB Statement 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. In addition, State of Michigan, Department of Treasury pronouncements were considered in the determination process. The component unit discussed below is included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Component Units – In conformity with generally accepted accounting principles, the financial statements of the component unit have been included in the financial reporting entity as a blended component unit.

Blended Component Unit – The City has one component unit in which the financial data has been blended with the primary government financial statement.

Downtown Development Authority – For financial reporting purposes the Downtown Development Authority is reported as if it were part of the City's operations because the City Council maintains budgetary control and its purpose is to promote and provide financial support to the downtown district.

# **CITY OF MANISTIQUE, MICHIGAN**

## **NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

The accounting policies of the City of Manistique conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

#### **(2) BASIS OF PRESENTATION**

##### **Government-Wide Financial Statements:**

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

##### **Fund Financial Statements:**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

The DDA Fund which is used to account for the support and improvement of the City's downtown district.

The City reports the following as major enterprise funds in accordance with the above criteria:

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Manistique.

The Water Utility Fund accounts for water services provided to the citizens of the City of Manistique.

The funds of the City are described below:

**Governmental Funds**

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Project Fund – The Landfill Construction Fund is the City's only capital project fund and is used to account for the costs associated with capping and monitoring the landfill site as well as collecting tax revenue for the purpose of paying the annual debt service requirements of the landfill bond which was issued for the purpose of closing the landfill.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

**Proprietary Funds**

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

**Fiduciary Funds**

Agency Fund - The Armory Trust and the Water Tower Trust funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities as well as the proprietary fund financial statements are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

## **CITY OF MANISTIQUE, MICHIGAN**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

##### **Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

#### **(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE**

- a. Cash and Equivalents – The City’s cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

- d. Inventory – Materials inventory in the Waste Water and Water utility funds and supplies inventory in the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 – 50 years
Machinery and equipment	4 – 15 years
Infrastructure	20 – 50 years

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

- f. Restricted Assets – Restricted assets include cash and equivalents which have been restricted by statute, third party requirements or by contract.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$18,351 and \$1,538 in the General Fund and Landfill Construction Fund for personal property taxes, \$207,244 in the DDA Fund for amounts due the DDA from other taxing units for undercapture of DDA taxes. These amounts have been deemed measurable, but not currently available.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

j. Equity Classification

*Government-Wide Statements*

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(5) REVENUES AND EXPENDITURES/EXPENSES**

**Revenues**

*Government-Wide Statements*

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

*Fund Statements*

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

**Expenses/Expenditures**

*Government-Wide Statements*

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

*Fund Statements*

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

**Other Financing Sources (Uses)**

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

**(6) OTHER SIGNIFICANT ACCOUNTING POLICIES**

**Interfund Activity**

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the third Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The City will hold a public hearing on the proposed budget prior to its final adoption. City Council shall adopt, by resolution, a budget for the next fiscal year no later than the second regular meeting in May.
- c. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council in June. Individual amendments were not material in relation to the original appropriations which were amended.
- d. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

**Property Taxes**

Property taxes levied attach as an enforceable lien on property. The City's annual property tax on real and personal property within the City is levied on July 1, payable by September 15, and is based on the taxable valuation of the property on the preceding December 31. Unpaid property taxes become delinquent on March 1, and all delinquent real property taxes are purchased by the County Treasurer. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. City property tax revenues are recognized when levied to the extent that they result in current receivables.



**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE**

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

General Fund	\$	76,203
Major Street		419
Local Street		1,600

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE C – CASH AND EQUIVALENTS**

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

Imprest Cash		\$	80
Deposits:			
Checking accounts	\$	839,982	
Certificates of Deposit		<u>1,201,741</u>	<u>2,041,723</u>
Total cash and equivalents			<u>\$ 2,041,803</u>
Government-wide Statement of Net Assets Presentation:			
Unrestricted	\$	1,510,523	
Restricted		<u>529,304</u>	\$ 2,039,827
Statement of Fiduciary Net Assets			<u>1,976</u>
Total cash and equivalents			<u>\$ 2,041,803</u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE C – CASH AND EQUIVALENTS (continued)**

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - i. The purchase of securities on a when-issued or delayed delivery basis.
  - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost and are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's cash deposits are as follows:

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE C – CASH AND EQUIVALENTS (continued)**

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 402,016	\$ 401,970
Uninsured	<u>1,689,125</u>	<u>1,639,833</u>
Total	<u>\$ 2,091,141</u>	<u>\$ 2,041,803</u>

Cash has been restricted within the listed funds as follows:

**Governmental Activities:**

General Fund:

PSO fantasy project	\$ 571
Christmas donation	456
Landfill perpetual care	8,128
Fire truck donation	<u>43,812</u>

Total General Fund \$ 52,967

Permanent Fund:

Cemetery Perpetual Care	<u>148,032</u>
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Total Governmental Activities \$ 200,999

**Business-Type Activities:**

Waste Water Utility:

1999 bond reserve	\$ 159,453
1999 bond and interest redemption	35,317

Water Utility:

Bond proceeds	1,900
FMHA bond reserve	92,782
Jr lien bond and redemption	32,826

Recreation Building:

Grant and related proceeds	<u>6,027</u>
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Total Business-Type Activities \$ 328,305

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE D – ACCOUNTS RECEIVABLE**

Business-Type Activities:

- (1) Ambulance Fund – The City has established a reserve for uncollectable accounts. The gross amount of the accounts receivable for the Ambulance Fund is \$77,499 and the allowance for uncollectable accounts was \$20,924, leaving a net accounts receivable of \$56,575.

**NOTE E – CAPITAL ASSETS**

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 81,000	\$ -	\$ -	\$ 81,000
Capital assets being depreciated:				
Land improvements	47,979	-	-	47,979
Buildings	716,303	44,430	-	760,733
Machinery and equipment	312,720	16,888	-	329,608
Vehicles	240,799	-	-	240,799
Infrastructure-road system	4,741,343	219,436	-	4,960,779
Total capital assets	6,140,144	280,754	-	6,420,898
Less accumulated depreciation:				
Land improvements	4,798	2,399	-	7,197
Buildings	307,835	15,497	-	323,332
Machinery and equipment	131,442	20,989	-	152,431
Vehicles	55,415	26,093	-	81,508
Infrastructure-road system	1,896,537	191,262	-	2,087,799
Total accumulated depreciation	2,396,027	256,240	-	2,652,267
Governmental activities capital assets, net	\$ 3,744,117	\$ 24,514	\$ -	\$ 3,768,631

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE E – CAPITAL ASSETS (continued)**

Business-type activities:

Capital assets not being depreciated:

Land	\$ 2,139	\$ -	\$ -	\$ 2,139
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Capital assets being depreciated:

Land improvements	58,996	-	-	58,996
Buildings	833,022	-	-	833,022
Machinery and equipment	1,177,127	77,843	132,628	1,122,342
Distribution/collection system	19,936,425	172,578	-	20,109,003
Total capital assets	<u>22,007,709</u>	<u>250,421</u>	<u>132,628</u>	<u>22,125,502</u>

Less accumulated depreciation:

Land improvements	12,136	3,972	-	16,108
Buildings	94,933	21,607	-	116,540
Machinery and equipment	583,614	98,083	132,516	549,181
Distribution/collection system	6,939,015	440,463	-	7,379,478
Total accumulated depreciation	<u>7,617,562</u>	<u>564,125</u>	<u>132,516</u>	<u>8,061,307</u>

Business-type activities capital assets, net	<u>\$ 14,390,147</u>	<u>\$ (313,704)</u>	<u>\$ 112</u>	<u>\$ 14,064,195</u>
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Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 20,374
Public health and safety	7,187
Parks and recreation	2,399
General public works	35,018
Street system	<u>191,262</u>

Total governmental activities  
depreciation expense

<u>\$ 256,240</u>
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Business-type activities:

Ambulance	\$ 38,167
Recreation building	31,343
Waste water utility	263,893
Water utility	<u>230,722</u>

Total business-type activities  
depreciation expense

<u>\$ 564,125</u>
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## CITY OF MANISTIQUE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

#### NOTE E – CAPITAL ASSETS (continued)

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$5,000 or more as of July 1, 2003.

#### NOTE F – RETIREMENT PLANS

##### MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

(1) Plan Description – The City of Manistique participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General division, has adopted benefit B-2, which provides for an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 2.0% of a member's final five year average compensation. The Police/Fire division has adopted benefit B-3. Under benefit B-3, employees shall receive 2.25% of their five year final compensation, with a maximum benefit of 80% of final average compensation. The Police/Non-Union division has adopted benefit B-4, by which employees shall receive 2.5% of their five year final compensation, with a maximum benefit of 80% of final average compensation.

The Police/Fire and Police/Non-Union divisions have adopted post-retirement adjustment benefit E-2 which provides automatic 2.5% annual non-compounded benefit increases to retiree's and their beneficiaries who retired on or after the effective date of benefit E-2. Increase is limited to increases in the consumers price index.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE F – RETIREMENT PLANS (continued)**

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost actuarial method was used to determine the entries at disclosure.

**GASB 25 INFORMATION (AS OF 12/31/03)**

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 3,455,538
Terminated employees not yet receiving benefits	77,492
Current Employees:	
Accumulated employee contributions including allocated investment income	100,288
Employer financed	<u>3,463,656</u>
Total actuarial liability	7,096,974
Net assets available for benefits, at actuarial value (market value is \$4,231,260)	<u>4,633,911</u>
Unfunded (overfunded) actuarial accrued liability	<u><u>\$ 2,463,063</u></u>

**GASB 27 INFORMATION (AS OF 12/31/03)**

Fiscal year beginning	July 1, 2005
Annual required contribution (ARC)	\$ 239,088
Amortization factor used	0.053632



# CITY OF MANISTIQUE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

### NOTE F – RETIREMENT PLANS (continued)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	\$ 224,768	100%	-
2002	226,758	100%	-
2003	227,537	100%	-

The City was required to contribute \$202,507 for the year ended June 30, 2004. Payments were based on contribution calculations made by MERS.

### Aggregate Accrued Liabilities – Comparative Schedule

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2001	\$ 4,280,247	\$ 6,320,414	\$ 2,040,167	68%	\$ 1,015,661	201%
2002	4,353,622	6,502,562	2,148,940	67%	1,107,701	194%
2003	4,633,911	7,096,974	2,463,063	65%	1,172,887	210%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997 and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE G – VESTED EMPLOYEE BENEFITS**

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations are limited based upon various criteria. Compensated absences in the amount of \$134,782 are reported under governmental activities and \$53,655 is reported under business-type activities in the Statement of Net Assets.

**NOTE H – POST RETIREMENT HEALTH BENEFITS**

The City pays health insurance premiums for employees who retire under the terms of employment contracts or City policy, until the retiree reaches age 65 or becomes eligible for Medicare. Currently ten employees are eligible to receive benefits, with nine employees receiving benefits. The insurance premiums are financed on a pay-as-you-go basis and are recorded as expenditures when paid and amounted to \$78,401 for the year ended June 30, 2004. The City has not recorded a liability in the Statement of Net Assets for future post employment health care costs.

# CITY OF MANISTIQUE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

### NOTE I – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2004:

Type of Debt	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Note - snowplow trucks	\$ 152,487	\$ -	\$ 36,321	\$ 116,166	\$ 37,495
Note - 2003 Ford pickup	18,287	-	5,903	12,384	6,093
Note - M-TEC energy	-	61,949	3,500	58,449	8,398
Lease - street sweeper	18,389	-	18,389	-	-
Lease - wheel loader	23,699	-	23,699	-	-
Lease - backhoe	31,826	-	9,988	21,838	10,596
DDA bonds - 1994	515,000	-	75,000	440,000	75,000
DDA bonds - series II	585,000	-	70,000	515,000	75,000
DDA bonds - 2001	530,000	-	25,000	505,000	25,000
Landfill bonds	2,030,000	-	35,000	1,995,000	40,000
Due to Manistique Papers	218,397	-	72,535	145,862	72,536
Landfill postclosure cost	900,000	-	320,000	580,000	20,000
Compensated absences	168,691	-	33,909	134,782	33,695
Total governmental long-term debt	<u>\$ 5,191,776</u>	<u>\$ 61,949</u>	<u>\$ 729,244</u>	<u>\$ 4,524,481</u>	<u>\$ 403,813</u>
<b>Business-type Activities:</b>					
Note - ambulance garage	\$ 115,000	\$ -	\$ 21,000	\$ 94,000	\$ -
Note - ambulance	-	61,643	-	61,643	16,680
Note - recreation	8,438	-	4,219	4,219	4,219
Bond - 1999 waste water	2,506,000	-	28,000	2,478,000	28,000
Bonds - 1995 water	1,800,000	-	15,000	1,785,000	20,000
Bonds - 1975 water	1,070,000	-	1,070,000	-	-
Bonds - 2004 water	-	985,000	-	985,000	98,500
Compensated absences	52,016	1,639	-	53,655	13,414
Total business-type long-term debt	<u>\$ 5,551,454</u>	<u>\$ 1,048,282</u>	<u>\$ 1,138,219</u>	<u>\$ 5,461,517</u>	<u>\$ 180,813</u>

**CITY OF MANISTIQUE, MICHIGAN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE I – LONG-TERM DEBT (continued)**

Debt service requirements on long-term debt at June 30, 2004 are as follows:

Year Ending June 30,	Governmental Activities					
	Notes Payable		Bonds Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 51,987	\$ 5,258	\$ 215,000	\$ 184,235	\$ 10,596	\$ 1,330
2006	53,567	3,678	230,000	170,395	11,242	685
2007	48,704	2,046	255,000	155,310	-	-
2008	8,917	574	275,000	138,556	-	-
2009	9,097	394	295,000	120,629	-	-
2010-2014	14,727	248	800,000	447,277	-	-
2015-2019	-	-	850,000	249,259	-	-
2020-2024	-	-	535,000	53,595	-	-
	<u>\$ 186,999</u>	<u>\$ 12,198</u>	<u>\$ 3,455,000</u>	<u>\$ 1,519,256</u>	<u>\$ 21,838</u>	<u>\$ 2,015</u>

Year Ending June 30,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2005	\$ 20,898	\$ 7,843	\$ 146,500	\$ 221,987
2006	27,681	6,745	157,500	217,749
2007	28,681	5,010	157,000	212,706
2008	24,602	3,806	158,000	207,338
2009	13,000	2,739	164,000	201,630
2010-2014	45,000	3,702	884,000	909,689
2015-2019	-	-	478,000	701,754
2020-2024	-	-	599,000	639,676
2025-2029	-	-	744,000	491,065
2030-2034	-	-	926,000	305,057
2035-2039	-	-	692,000	105,099
2040-2044	-	-	142,000	3,195
	<u>\$ 159,862</u>	<u>\$ 29,845</u>	<u>\$ 5,248,000</u>	<u>\$ 4,216,945</u>

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE I – LONG-TERM DEBT (continued)**

**Governmental Activities:**

As of June 30, 2004, the governmental activities long-term debt consisted of the following:

**Notes Payable:**

Note payable issued January 25, 2003 for \$152,487 at 3.24% interest for the purchase of two snowplow trucks. The note calls for 4 annual principal and interest payments of \$41,259.

During the year ended June 30, 2003, the City signed a 36-month note for the purchase of a Ford pickup. The note calls for annual payments of \$6,495 and bears an interest rate of 3.24%.

During the year ended June 30, 2004, the City signed an 84 month note for energy improvements made to City facilities. The note calls for monthly principal and interest payments of \$791 and bears an interest rate of 2.0%.

**Capital Leases:**

The City signed a capital lease for a street sweeper. The lease calls for annual principal and interest payments of \$19,375 and bears an interest rate of 5.29%. The lease was paid-off in the current year.

The City signed a capital lease for a wheel loader. The lease calls for semi-annual principal and interest payments of \$12,422 and bears an interest rate of 6.0%. The lease was paid-off in the current year.

During the year ended June 30, 2002, the City signed a 60 month capital lease for a backhoe. The lease calls for annual principal and interest payments of \$11,926 and bears an interest rate of 6.09%.

**Bonds Payable:**

In April 1994 the Downtown Development Authority issued general obligation limited tax bonds for the purpose of making public improvements to the downtown development area. The bonds were issued in the face amount of \$995,000 and bear an interest rate which varies from 5.3% to 6.0% and have a final maturity of May 2009.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE I – LONG-TERM DEBT (continued)**

**Bonds Payable (continued):**

In November 1994 the Downtown Development Authority issued Series II general obligation limited tax bonds for \$995,000 with a variable interest rate ranging from 6.5% to 7.1% and have a final maturity of November 2009. The purpose of the bond issue was to complete the downtown improvement project which was started with the April 1994 DDA bond issue.

Bonds were issued August 2001 in the name of the Downtown Development Authority for \$550,000 at an interest rate of 7.0% through 2003 and 5.0% thereafter for the purpose of public improvements in the downtown development area. The bonds have final maturity of September 2016.

Bonds were issued March 2002 for \$2,055,000 for the purpose of closing the City landfill. The City has issued a separate levy for the purpose of making the future debt payments. The bonds call for annual principal payments and semi-annual interest payments and bear an interest rate ranging from 4.25% to 5.05% and have a final maturity of May 2022.

In January 2003, the Michigan Tax Tribunal issued a consent judgement on behalf of Manistique Papers stating that some of the taxable values on their personal property were overstated, therefore calling for a refund of a portion of prior years taxes paid. As part of the judgement, the Downtown Development Authority was ordered to repay \$290,142 in four annual installments of \$72,536.

As part of closing the City's landfill, the Michigan Department of Environmental Quality (MDEQ) required the site to be monitored to ensure the site is compliant with the various environmental requirements of the MDEQ. Because of this requirement, the City has estimated the cost of the future monitoring to be \$20,000 per year for a period of 30 years beginning in the year 2003.

**Business-type Activities:**

As of June 30, 2004, the long-term debt of business-type activities consists of the following:

**Note Payable:**

During the year ended June 30, 2002, the City signed a 108 month note for the purchase/construction of a garage. The note calls for annual principal and semi-annual interest payments and bears an interest rate of 5.24%.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE I – LONG-TERM DEBT (continued)**

Note Payable (continued):

During the year ended June 30, 2004, the City issued a note for the purchase of an ambulance in the amount of \$61,643. The note calls for four annual principal and interest payments and bears an interest rate of 3.24% with a final maturity date of August 2007.

The City issued a note for capital improvements at the recreation building in the amount of \$42,641. The note calls for annual principal payments of \$4,219 plus accrued interest. The note bears an interest rate of 8.0% and matures in August 2004.

Bonds Payable:

1999 Waste Water System Bond - Waste water system revenue bond, original issue dated September 28, 1999 for \$2,581,000 with an interest rate of 4.5%. Principal amounts are due in varying annual installments each August 1<sup>st</sup> beginning in 2000 and ending in 2039. Interest payments are due semi-annually each August 1<sup>st</sup> and February 1<sup>st</sup>. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after August 1, 2000, at par and accrued interest to the date fixed for prepayment. The purpose of the bond was to construct certain additions, renovations, expansions and improvements to the waste water system.

1995 Water System Bond - Water system junior lien revenue bond, series 1995A, original dated June 9, 1995 for \$1,900,000 with an interest rate of 4.5%. Bonds are due serially from June 1, 1996 until June 1, 2035. Interest is payable June 1 and December 1. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after December 1, 1996, at par and accrued interest to the date fixed for prepayment. The purpose of the bond is to construct improvements to the water system.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE I – LONG-TERM DEBT (continued)**

1975 Water System Bonds – In 1975, the City issued water system revenue bonds for the purpose of system improvements. The bonds bear an interest rate of 5.0% and have a final maturity of December 2014. Principal payments vary and are due annually each December 1<sup>st</sup> and interest payments are due semi-annually each June 1<sup>st</sup> and December 1<sup>st</sup>. The City has the option to payoff the bonds early without a prepayment penalty. During the year ending June 30, 2004, the City elected to refinance this bond issue.

2004 Water System Bonds – On June 1, 2004 the City issued water system limited tax general obligation bond refunding series 2004 for the purpose of retiring the 1975 water system bonds. The bonds were issued to the State Savings Bank, Manistique, Michigan in the amount of \$985,000 and have a variable interest rate of 1.9% to 4.55%. Interest payments are due and payable each December 1 and June 1. Principal payments are due each December 1 with the final principal payment due December 1, 2014.

**NOTE J – INTERFUND BALANCES AND TRANSFERS**

Individual fund interfund receivables and payable balances at June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
		Major Street Fund	\$ 15,949
		Local Street Fund	16,586
		DDA	9,545
		Ambulance	7,071
		Waste Water System	24,132
		Water System	<u>5,704</u>
General Fund	<u>\$ 78,987</u>	Subtotal	<u>78,987</u>
Waste Water Sytem	<u>225,363</u>	General Fund	<u>225,363</u>
Total	<u><u>\$ 304,350</u></u>	Total	<u><u>\$ 304,350</u></u>



**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE J – INTERFUND BALANCES AND TRANSFERS (continued)**

Interfund transfers for the year ended June 30, 2004 were as follows:

	Transfers In		Transfers Out
Landfill Construction	\$ 87,803		
Recreation Building	3,000		
Subtotal	90,803	General Fund	\$ 90,803
DDA	14,594	DDA Debt Service	14,594
DDA Debt Service	265,183		
Waste Water System	60,000		
Subtotal	325,183	DDA	325,183
Local Street	25,000	Major Street	25,000
Total	\$ 455,580	Total	\$ 455,580

**NOTE K – RESTRICTED NET ASSETS**

In the Statement of Net Assets, for governmental activities, net assets has been restricted in the amount of \$44,269, of which \$43,812 represents grant awards to the City which are to be used for the exclusive purpose of purchasing a fire truck. Also an amount of \$425,820 has been restricted in the governmental activities column for net assets which are restricted for the sole purpose of maintaining and monitoring the landfill.

**NOTE L – RISK MANAGEMENT**

The City is exposed to various risks of loss to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. There have been no significant reductions in insurance coverage for the past three years.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE M – CONTINGENT LIABILITIES**

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City as of June 30, 2004.

**NOTE N – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

The City of Manistique, as licensee, previously operated a landfill on land owned by the State of Michigan. State and federal laws and regulations require that a final cover be placed on the landfill and that certain maintenance and monitoring functions be performed at the landfill site for thirty years after closure.

During the year ended June 30, 2002, the City issued bonds in the amount of \$2,055,000 for the purpose of paying a portion of the cost of the landfill closure and acquiring and installing equipment for ongoing landfill monitoring and related structures and equipment necessary to comply with Michigan Department of Environmental Quality and court ordered requirements.

The City has also recognized a liability in the amount of \$580,000 in the financial statements for estimated postclosure monitoring costs. These costs were based on an estimated amount of \$20,000 per year for 30 years, with 29 years of monitoring remaining as of June 30, 2004. These estimates could change in the future based upon changes in state and federal laws and regulations, inflation or deflation and technology. Since December 1996, three mills are levied annually for landfill closure and postclosure care costs. Proceeds from this levy will be used to cover the bond payment and future maintenance and monitoring expenses.

In prior years it was estimated that the postclosure monitoring costs would be \$30,000 per year for a period of 30 years, therefore the City had recorded a liability of \$900,000. The change in estimate in the current year is based upon the City's engineering firm revising the estimated cost for postclosure monitoring based upon current requirements and conditions. The effect of this change required an adjustment of \$320,000 and was adjusted in the Statement of Activities under the Sanitary Landfill function. If this adjustment had not been made, the Sanitary Landfill function would have had gross expenses of \$167,581 rather than an expense of (\$152,419).

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2004

**NOTE O – DDA CAPTURE OF SCHOOL TAXES**

In prior years, the City was told that the 1994 Series II DDA bonds were not an eligible obligation for the DDA to capture school taxes on based upon information that the State of Michigan Tax Commission had on file. In prior years it was estimated that the potential amount the DDA would have to repay could range from \$600,000 to \$1,000,000. During the year ended June 30, 2004, City officials met with the State Tax Commission to review the eligibility of the 1994 Series II DDA bonds and it was determined that it was an eligible obligation, therefore allowing the DDA to capture the school taxes on the debt obligation. The net result of this change was that the DDA is owed \$207,244 from other taxing units for undercapture of school taxes, as determined by the State Tax Commission. In the fund financial statements the entire \$207,244 was recorded as a deferred revenue because it does not meet the definition of "available" for modified accrual accounting.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
Federal sources	\$ -	\$ 57,526	\$ 57,526	\$ -
State sources	513,000	472,669	479,827	7,158
Local sources	12,300	18,345	17,152	(1,193)
Taxes	707,760	698,952	699,503	551
Recreation	18,405	15,105	14,909	(196)
Public safety	1,000	1,581	2,451	870
Charges for services	277,650	342,441	351,852	9,411
Equipment rental	185,000	261,000	270,857	9,857
Interest income	7,300	8,250	8,585	335
Miscellaneous	28,500	31,994	33,570	1,576
Total revenues	\$ 1,750,915	\$ 1,907,863	\$ 1,936,232	\$ 28,369
<b>EXPENDITURES:</b>				
General government:				
City council	\$ 11,100	\$ 11,100	\$ 10,097	\$ 1,003
Community promotion	2,700	3,969	3,617	352
City manager	126,776	134,242	133,752	490
General administration	14,100	14,600	10,317	4,283
Elections	7,180	7,180	7,066	114
City assessor	81,900	95,226	93,620	1,606
City attorney	28,000	31,988	31,588	400
City clerk	80,350	76,050	74,368	1,682
Board of review	1,200	1,200	650	550
City treasurer	64,817	64,817	66,759	(1,942)
Building and grounds	64,200	109,981	105,582	4,399
Cemeteries	43,660	43,660	48,250	(4,590)
Planning	3,298	3,336	3,320	16
Public health and safety:				
Public safety	693,351	697,711	698,228	(517)
Parks and recreation:				
Parks	10,840	13,424	11,127	2,297
Marina	27,450	27,450	24,775	2,675
General public works:				
Department of public works	330,740	311,447	305,445	6,002
Street lighting	38,000	39,063	39,063	-
Capital outlay	3,677	9,836	11,757	(1,921)
Debt service	76,500	86,027	91,326	(5,299)
Other	88,000	106,972	106,972	-
Total expenditures	1,797,839	1,889,279	1,877,679	11,600
Excess revenues (expenditures)	(46,924)	18,584	58,553	39,969
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	60,000	-	-	-
Transfer out	(3,000)	(3,000)	(90,803)	(87,803)
Total other financing sources (uses)	57,000	(3,000)	(90,803)	(87,803)
Net changes in fund balances	10,076	15,584	(32,250)	(47,834)
Fund balances - beginning	166,687	166,687	166,687	-
Fund balances - ending	\$ 176,763	\$ 182,271	\$ 134,437	\$ (47,834)

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**DDA FUND**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State sources	\$ 24,700	\$ 24,700	\$ 17,246	\$ (7,454)
Taxes	639,000	639,000	614,817	(24,183)
Interest income	3,700	3,700	4,896	1,196
Miscellaneous	4,000	63,800	601	(63,199)
Total revenues	\$ 671,400	\$ 731,200	\$ 637,560	\$ (93,640)
<b>EXPENDITURES:</b>				
Economic development	\$ 96,100	\$ 121,228	\$ 143,243	\$ (22,015)
Capital outlay	108,900	163,128	182,559	(19,431)
Debt service	134,375	134,359	91,911	42,448
Total expenditures	339,375	418,715	417,713	1,002
Excess revenues (expenditures)	332,025	312,485	219,847	(92,638)
<b>OTHER FINANCING SOURCES (USES)</b>				
Tax revenue adjustment	-	-	192,159	192,159
Transfer in	-	14,594	14,594	-
Transfer out	(331,544)	(325,183)	(325,183)	-
Total other financing sources (uses)	(331,544)	(310,589)	(118,430)	192,159
Net changes in fund balances	481	1,896	101,417	99,521
Fund balances - beginning	(36,588)	(36,588)	(36,588)	-
Fund balances - ending	\$ (36,107)	\$ (34,692)	\$ 64,829	\$ 99,521

**OTHER SUPPLEMENTAL INFORMATION**

**CITY OF MANISTIQUE, MICHIGAN  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2004**

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Major Street</u>	<u>Local Street</u>	<u>DDA Debt Service</u>	<u>Landfill Construction</u>	<u>Cemetery Perpetual Care</u>	
<b>ASSETS</b>						
Cash and equivalents:						
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 148,032	\$ 148,032
Unrestricted	168,380	57,888	-	425,820	-	652,088
Receivables:						
Delinquent taxes	-	-	-	1,538	-	1,538
Due from other governmental units	35,708	13,206	-	-	-	48,914
Total assets	<u>\$ 204,088</u>	<u>\$ 71,094</u>	<u>\$ -</u>	<u>\$ 427,358</u>	<u>\$ 148,032</u>	<u>\$ 850,572</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accrued payroll	\$ 977	\$ 1,299	\$ -	\$ -	\$ -	\$ 2,276
Due to other funds	15,949	16,586	-	-	-	32,535
Deferred revenue	-	-	-	1,538	-	1,538
Total liabilities	<u>16,926</u>	<u>17,885</u>	<u>-</u>	<u>1,538</u>	<u>-</u>	<u>36,349</u>
Fund balances:						
Reserved for:						
Cemetery perpetual care	-	-	-	-	148,032	148,032
Unreserved	187,162	53,209	-	425,820	-	666,191
Total fund balances	<u>187,162</u>	<u>53,209</u>	<u>-</u>	<u>425,820</u>	<u>148,032</u>	<u>814,223</u>
Total liabilities and fund balances	<u>\$ 204,088</u>	<u>\$ 71,094</u>	<u>\$ -</u>	<u>\$ 427,358</u>	<u>\$ 148,032</u>	<u>\$ 850,572</u>

See accompanying notes to financial statements.



**CITY OF MANISTIQUE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2004**

	Special Revenue Funds		Debt Service Fund	Capital Project Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Major Street	Local Street	DDA Debt Service	Landfill Construction	Cemetery Perpetual Care	
<b>REVENUES:</b>						
Federal sources	\$ 170,240	\$ -	\$ -	\$ -	\$ -	\$ 170,240
State sources	298,130	78,346	-	-	-	376,476
Taxes	-	-	-	167,880	-	167,880
Interest income	2,748	863	99	12,437	-	16,147
Miscellaneous	-	-	-	-	6,900	6,900
Total revenues	\$ 471,118	\$ 79,209	\$ 99	\$ 180,317	\$ 6,900	\$ 737,643
<b>EXPENDITURES:</b>						
Street system	\$ 427,438	\$ 116,675	\$ -	\$ -	\$ -	\$ 544,113
Sanitary landfill	-	-	-	5,211	-	5,211
Capital outlay	-	-	-	179,258	-	179,258
Debt service:						
Principal	-	-	170,000	35,000	-	205,000
Interest and other charges	-	-	95,183	94,775	-	189,958
Total expenditures	427,438	116,675	265,183	314,244	-	1,123,540
Excess revenues (expenditures)	43,680	(37,466)	(265,084)	(133,927)	6,900	(385,897)
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	25,000	265,183	87,803	-	377,986
Transfers out	(25,000)	-	(14,594)	-	-	(39,594)
Total other financing sources (uses)	(25,000)	25,000	250,589	87,803	-	338,392
Net changes in fund balances	18,680	(12,466)	(14,495)	(46,124)	6,900	(47,505)
Fund balances - beginning	168,482	65,675	14,495	471,944	141,132	861,728
Fund balances - ending	\$ 187,162	\$ 53,209	\$ -	\$ 425,820	\$ 148,032	\$ 814,223

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**June 30, 2004**

	Ambulance	Recreation Building	Total Enterprise Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents			
Restricted	\$ -	\$ 6,027	\$ 6,027
Unrestricted	102,776	5,542	108,318
Receivables:			
Accounts (net)	56,575	-	56,575
Total current assets	<u>159,351</u>	<u>11,569</u>	<u>170,920</u>
Noncurrent assets:			
Capital assets (net)	<u>295,291</u>	<u>791,807</u>	<u>1,087,098</u>
Total assets	<u>\$ 454,642</u>	<u>\$ 803,376</u>	<u>\$ 1,258,018</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 503	\$ -	\$ 503
Accrued payroll	2,617	578	3,195
Accrued interest	-	70	70
Due to other funds	7,071	-	7,071
Notes payable	<u>16,680</u>	<u>4,219</u>	<u>20,899</u>
Total current liabilities	<u>26,871</u>	<u>4,867</u>	<u>31,738</u>
Noncurrent liabilities:			
Notes payable	<u>138,963</u>	<u>-</u>	<u>138,963</u>
Total liabilities	<u>\$ 165,834</u>	<u>\$ 4,867</u>	<u>\$ 170,701</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 139,648	\$ 787,588	\$ 927,236
Unrestricted	<u>149,160</u>	<u>10,921</u>	<u>160,081</u>
Total net assets	<u>\$ 288,808</u>	<u>\$ 798,509</u>	<u>\$ 1,087,317</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2004**

	Ambulance	Recreation Building	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 290,949	\$ 50,155	\$ 341,104
Miscellaneous	891	12,617	13,508
	<u>\$ 291,840</u>	<u>\$ 62,772</u>	<u>\$ 354,612</u>
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	\$ 119,752	\$ 19,318	\$ 139,070
Supplies	3,705	4,469	8,174
Contracted services	5,382	1,400	6,782
Repairs and maintenance	1,918	3,229	5,147
Utilities	3,300	18,362	21,662
Communications	113	326	439
Printing and publishing	-	254	254
Transportation	4,532	-	4,532
Insurance	6,873	1,648	8,521
Conference and workshops	411	-	411
Equipment rental	-	767	767
Uncollectible accounts	90,066	-	90,066
Depreciation	38,167	31,342	69,509
Miscellaneous	4	4,541	4,545
	<u>274,223</u>	<u>85,656</u>	<u>359,879</u>
Total operating expenses			
	<u>17,617</u>	<u>(22,884)</u>	<u>(5,267)</u>
Operating income (loss)			
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	493	139	632
Gain (loss) on sale of equipment	1,000	-	1,000
Interest expense	(5,857)	(683)	(6,540)
	<u>(4,364)</u>	<u>(544)</u>	<u>(4,908)</u>
Total nonoperating revenue (expense)			
Income (loss) before transfers and contributions	13,253	(23,428)	(10,175)
Transfer in	-	3,000	3,000
	<u>13,253</u>	<u>(20,428)</u>	<u>(7,175)</u>
Change in net assets			
Total net assets - beginning	<u>275,555</u>	<u>818,937</u>	<u>1,094,492</u>
Total net assets - ending	<u>\$ 288,808</u>	<u>\$ 798,509</u>	<u>\$ 1,087,317</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2004**

	Ambulance	Recreation Building	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 280,484	\$ 62,772	\$ 343,256
Payments to suppliers	(113,679)	(35,330)	(149,009)
Payments for wages and related benefits	(120,661)	(19,060)	(139,721)
Net cash provided (used) by operating activities	46,144	8,382	54,526
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	-	3,000	3,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of fixed assets	(77,843)	-	(77,843)
Principal paid on debt instruments	(21,000)	(4,219)	(25,219)
Interest paid on debt instruments	(5,857)	(683)	(6,540)
Proceeds from debt issuance	61,644	-	61,644
Gain on sale of fixed assets	1,000	-	1,000
Net cash provided (used) by capital and related financing activities	(42,056)	(4,902)	(46,958)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earnings	493	139	632
Net increase (decrease) in cash and equivalents	4,581	6,619	11,200
Cash and equivalents, beginning of year	98,195	4,950	103,145
Cash and equivalents, end of year	<u>\$ 102,776</u>	<u>\$ 11,569</u>	<u>\$ 114,345</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 17,617	\$ (22,884)	\$ (5,267)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	38,167	31,342	69,509
Changes in assets and liabilities:			
(Increase) decrease in receivables	(11,356)	-	(11,356)
Increase (decrease) in accounts payable	(3,557)	(334)	(3,891)
Increase (decrease) in accrued payroll	(909)	258	(651)
Increase (decrease) in due to other funds	6,182	-	6,182
Net cash provided by operating activities	<u>\$ 46,144</u>	<u>\$ 8,382</u>	<u>\$ 54,526</u>

See accompanying notes to financial statements.



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members  
of the City Commission  
City of Manistique  
Manistique, MI 49854

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Manistique, Michigan's basic financial statements and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance – As part of obtaining reasonable assurance about whether the City of Manistique, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Manistique, Michigan, in a separate letter dated September 17, 2004.

Internal Control Over Financial Reporting – In planning and performing our audit, we considered the City of Manistique, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by

Honorable Mayor and Members  
of the City Commission  
City of Manistique  
Page 2

employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Manistique, Michigan, in a separate letter dated September 17, 2004.

This report is intended solely for the information of management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

September 17, 2004

**CITY OF MANISTIQUE, MICHIGAN**

**REPORT TO MANAGEMENT**

**Year Ended June 30, 2004**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
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Lindsay J. Behrend, CPA

**REPORT TO MANAGEMENT**

To the Honorable Mayor and Members  
of the City Council  
City of Manistique

**Audit Committee Communications**

We have audited the financial statements of the City of Manistique, Michigan for the year ended June 30, 2004, and have issued our reports thereon dated September 17, 2004. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated August 18, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the City of Manistique, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Manistique's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.



To the Honorable Mayor and Members  
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### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Manistique, Michigan are described in Note A of the financial statements. In the current year the City adopted GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis*, which changes the way the City presents its financial statements. We noted no transactions entered into by the City of Manistique, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Manistique's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, none of the adjustments we proposed, whether recorded or unrecorded by the City of Manistique, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Manistique's financial reporting process.

To the Honorable Mayor and Members  
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#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Manistique's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

#### **Comments and Recommendations**

In planning and performing our audit of the financial statements of the City of Manistique, Michigan for the year ended June 30, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

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However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated September 17, 2004, on the financial statements of the City of Manistique, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the used of City Council and management of the City of Manistique and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

September 17, 2004

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2004

**Receipt Sequencing**

**Comment:**

During our testing we noted gaps in the sequence of receipt numbers. The reason for the gaps in the receipt number sequence is because receipts for taxes and utilities are being post-dated back to the date they were received, which can be as much as two or three days earlier.

**Recommendation:**

In order to improve the internal controls over the receipting function, we recommend that receipts for utilities and taxes be entered the day they are received. Receipting monies into the general ledger two or three days after they have been received can make it difficult to reconcile various general ledger accounts and subjects City assets to misappropriation.

**Management Response:**

The City agrees with our auditors. The City currently has an outdated software receipting module that does not allow more than one type of application at a time (eg. counter activities, tax payments, or utility payments). Therefore we are required to receipt the other applications separately. We are currently researching a new receipting system that would receipt all applications instantly; unfortunately cost containment plays a large role in this problem.

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2004

**Utility Billing System**

**Comment:**

The following items were noted relating to the utility billing system:

1. Segregation of duties - Currently the utility billing clerk has the ability to make manual adjustments to the utility billing system, generate the billings from the utility billing system, and collect and receipt a large portion of the cash collections relating to utility accounts.

**Recommendation:**

1. Segregation of duties – The City should review the procedures relating to the utility billing function and segregate duties relating to the utility billing system if possible.

**Management Response:**

1. The City has segregated duties to the best of our ability with the few people we have and the software we presently use. The implementation of a new software that receipts instantly would help alleviate the problem. The re-positioning of the part-time City Clerk to full-time will also help with the cash collections.

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2004

**Journal Entry Approval**

**Comment:**

Currently journal entries that are posted to the general ledger are not reviewed or approved by a second individual.

**Recommendation:**

All journal entries posted to the general ledger should be reviewed and approved by an individual who is independent of the individual initiating or posting the journal entry.

**Management Response:**

Journal entries are made to correct errors (eg. checks posted to wrong line items, wrong funds, etc.) Currently there is only one person on staff that fully understands the journal entry accounting process. The person for whom the correction is made is given a full explanation as to why the entry is being made. In addition, full supporting documentation is attached to the back of the journal entry. It is management's goal to have at least two people on staff that understand the journal entry process, so the second opinion and review can happen.

**Ambulance Accounts Receivable**

**Comment:**

The accounts receivable balance per the general ledger does not agree to the listing provided by Rampart, the third party contractor hired to do the billings. The balances were different by \$4,100.

**Recommendation:**

The balance between the general ledger and the balance provided by Rampart should be reconciled on a monthly basis with any differences investigated and reconciled.

**CITY OF MANISTIQUE, MICHIGAN**  
**COMMENTS AND RECOMMENDATIONS**

June 30, 2004

**Ambulance Accounts Receivable (continued)**

**Management Response:**

Ambulance receivables are reconciled and monitored monthly. The difference in the City's balance and Rampart's is in the timing of end-of-month billings. The City records them as a receivable when sent to Rampart (eg. Sept 30<sup>th</sup>). Rampart records them as a receivable when received (eg. Oct 1<sup>st</sup>). We could implement a cut-off date of the 25<sup>th</sup> of the month, at which time we would hold bills and send them the first of the next month to give Rampart time to get the billings in Rampart's books in the same month the City recorded them as revenue. The City prefers to record the receivable and revenue in the month it actually happens, not when Rampart receives it.

**Budget Non-Compliance**

**Comment:**

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

General Fund	\$76,203
Major Street	419
Local Street	1,600

**Recommendation:**

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations.

**Management Response:**

The request to have the auditors transfer old Landfill monies from the General Fund of approximately \$82,000 was not in our budget, and we should have amended to include it. We will try and amend any overages in the future.